

## **5-0600.00     SUPPLIES**

### **5-0610.00     INTRODUCTION**

#### **5-0610.10     DEFINITIONS**

**"Supplies"** are items which:

- (1) Are consumed in use, usually within one year; or
- (2) Are expendable, that is, if the item is damaged or some of its parts are lost or worn out, it is more feasible to replace the item than to repair it; or
- (3) Lose their identity through incorporation into a different or more complex unit or substance; or
- (4) Have a cost which does not make it worthwhile to tag items, since the cost of tagging them would be a significant portion of the cost of the item; or
- (5) Are relatively inexpensive, as compared to an item of equipment.

#### **5-0610.20     BASIC ACCOUNTING PROCEDURES**

GAAP requires that the supplies inventory be reported as an asset on the financial statements of governmental funds of an entity if the amount is significant. Districts may use one of two methods for accounting for supplies: (1) Purchases Method; or (2) Consumption Method. The methods are described in the following sections. **The district must apply the method it uses consistently between years.**

The **Purchases Method** treats supply purchases as expenditures in the year the goods are received. The **Consumption Method** treats supply purchases as additions to inventory, and the cost of supplies is recorded as an expenditure in the year the supplies are used. Supplies may be considered to have been used or "consumed" in the year they are moved from the district's central supply storehouse into the area in which the supplies will be used.

Textbook purchases are generally recorded using the purchases method. That means the expenditure is recorded the year the books are received. Most districts record the cost of books, if material, as supplies inventory and reserve for inventory on the Trustees' Financial Summary. Alternatively, the cost of textbooks may be recorded not as supplies inventory but as a fixed asset using 341 Machinery and Equipment in the GFAAG (Fund 98).

Under either the Purchases Method or the Consumption Method, the district must record the fiscal year-end supply inventory as an asset on the accounting records if the amount is significant. Determining the amount to be considered significant is subject to the judgement of the district and its auditors. OPI suggests that a supply inventory value of 10% or more of current assets should be considered "significant." The value of the inventory, based on a physical count at June 30, is recorded as a reserve of fund balance at fiscal year-end under the purchases method. (NOTE: Notify your auditor of the date you plan to count inventories. The auditor may need to observe the count for the audit report on the financial statements.)

Districts may require written requisitions for supplies.

## 5-0610.30 VALUING THE SUPPLY INVENTORY

The value of the supply inventory will normally be determined based on the actual cost (specific cost) of the items on hand at fiscal year-end. Alternatively, districts may value inventories based on one of several cost flow assumptions, including first-in, first-out (FIFO), last-in, first-out (LIFO), or average cost. **Districts must use the chosen method consistently from year to year.**

The common valuation methods are listed below:

- a. Specific Cost - Items on hand are valued at their specific costs.
- b. First-In, First-Out (FIFO) - Items on hand are assumed to be the items of that kind most recently purchased. Items on hand are valued at the most recent cost.
- c. Last-In, First-Out (LIFO) - Items on hand are assumed to be the earliest purchased items of that kind. Items on hand are valued at the earliest cost.

## 5-0620.00 METHODS FOR ACCOUNTING FOR SUPPLIES

### 5-0620.10 PURCHASES METHOD

Under the Purchase Method of recording supplies inventories the district will record an expenditure when the supplies are purchased.

Assume the beginning (i.e., July 1) inventory of supplies on hand is \$450,000.

**To record the purchase of supplies:** For example, assume the district purchased \$200,000 of supplies during the year.

Debit: 802	Expenditures	\$200,000
Credit: 620 or 101	Warrants Payable or Cash	\$200,000
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-610	Supplies	\$200,000

(To record purchase of inventory.)

**At year-end, to accrue the expenditure for supplies received but not paid for by June 30:** For example, assume \$1,500 of supplies are received but the invoice has not been paid at June 30.

Debit: 802	Expenditures	\$1,500
Credit: 621	Accounts Payable	\$1,500
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-610	Supplies	\$1,500

(To record an expenditure accrual for items received by June 30 for which the district has not paid.)

## **5-0620.10 PURCHASES METHOD (Cont'd)**

### **At fiscal year-end, if the inventory amount on hand is significant, to record the supply inventory:**

For example, assume the inventory amount on hand on June 30 is \$500,000, which is considered significant. The inventory balance at the previous fiscal year-end was \$450,000. Assuming the balances of the 220 and 951 accounts carried over from the prior year, adjust the inventory account to the current fiscal year balance.

Debit: 220	Inventories for Consumption	\$50,000
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Credit: 951	Reserve for Inventories	\$50,000
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(To record the year-end supply inventory value on the purchases method. **If the inventory decreased**, adjust the inventory account balance by debiting 951 and crediting 220 for the amount of the decrease.)

### **To record the payment in July or August for the expenditure accrual:**

Debit: 621	Accounts Payable	\$1500
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Credit: 620 or 101	Warrants Payable or Cash	\$1500
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(To record the payment for the accrued expenditures recorded the previous fiscal year-end. See section 5-0340.00, "RECORDING THE DIFFERENCES BETWEEN ACCRUAL AND PAYMENT AMOUNTS.")

## **5-0620.20 CONSUMPTION METHOD**

Under the Consumption Method of recording inventories the district will record an asset when the supplies are purchased. This method treats the acquisition of supply inventories as a conversion of financial resources rather than as a use of financial resources. Expenditures are recorded when supplies are consumed, or used in operations.

For simplicity, the entries shown in this section assume the district establishes the initial inventory on the records based on the physical inventory count on June 30, 19X1.

For example, assume the 6/30/X1 balance of the supply inventory in the central storehouse is \$38,000 Teaching and Instructional Supplies, \$45,000 Administrative Supplies, \$5000 Custodial Supplies, and \$12,000 Athletic Supplies. The supplies were purchased with General Fund money.

Districts may record the expenditures for consumption of supplies once each year ("Periodic Inventory") or continually as supplies are requisitioned from the central supplies storehouse ("Perpetual Inventory"). Both methods are discussed below.

## 5-0620.21 CONSUMPTION METHOD—PERIODIC (ANNUAL) INVENTORY

Using the consumption method on a periodic inventory basis, the district will normally record the purchase of supplies as an expenditure but will adjust expenditures at year-end to reflect the amount of supplies used during the year.

**To record the purchase of inventory:** For example, assume \$200,000 of supplies are purchased during the year.

General Fund (01)		
Debit: 802	Expenditures	\$200,000
Credit: 620 or 101	Warrants Payable or Cash	\$200,000
Expenditures Subsidiary Ledger		
X01-XXX-XXXX-610	Supplies	\$200,000

(To record the purchase of inventory.)

**To record supplies received but not yet paid for by June 30:** For example, assume supplies were received and the invoice for \$1500 has not been paid by June 30.

General Fund (01)		
Debit: 802	Expenditures	\$1,500
Credit: 621	Accounts Payable	\$1,500
Expenditures Subsidiary Ledger		
X01-XXX-XXXX-610	Supplies	\$1,500

(To accrue the expenditure for supplies received but not paid as of fiscal year-end.)

**At fiscal year-end, make a physical count of unused supplies in the central storage area.** Use the count to determine the cost of supplies used during the year. For example:

Beginning of the year inventory	\$100,000
Plus Purchases	201,500
Total Available	\$301,500
Less Ending Inventory (Based on year-end count)	(\$110,000)
Amount used this year	\$191,500

**At fiscal year-end, to adjust expenditures to equal the amount of inventory used during the year:**

General Fund (01)		
Debit: 220	Inventories for Consumption	\$10,000
Credit: 802	Expenditures	\$10,000
Expenditures Subsidiary Ledger		
X01-XXX-XXXX-610	Supplies	\$10,000

(To adjust expenditures to reflect the amount consumed during the year. The expenditures to date were \$201,500. The amount used this year was \$191,500, so expenditures were reduced by \$10,000 in this entry. The beginning inventory account balance was \$100,000. This entry increases the balance to \$110,000, which is the correct ending inventory balance.)

## 5-0620.21 CONSUMPTION METHOD—PERIODIC (ANNUAL) INVENTORY (Cont'd)

**At fiscal year-end, to adjust the fund balance reserve for inventories:** Because inventories are an asset (even though they do not represent expendable resources) it is necessary to reserve fund balance by an amount equal to the carrying value of the inventories at fiscal year-end if the inventory amount is significant. For example, assume the ending inventory value is \$110,000. The balance of the 951 account carried over from the prior year is \$100,000 before adjustment.

General Fund (01)

Debit: 970	Unreserved Fund Balance	\$10,000
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Credit: 951	Reserve for Inventory	\$10,000
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(To adjust the fund balance reserve for inventory to equal the balance of the inventory 220 account. The adjustment amount is \$10,000 (\$110,000 ending inventory less \$100,000 previous account balance). Debit account 970 for governmental funds and 940 for proprietary funds. If the inventory decreased, debit 951 and credit 970 or 940 for the amount of the decrease.)

**To record the payment in July or August for the expenditure accrual:**

General Fund (01)

Debit: 621	Accounts Payable	\$1,500
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Credit: 620 or 101	Warrants Payable or Cash	\$1,500
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(To record the payment for the accrual. This entry reduces the payable recorded at the previous fiscal year-end. See section 5-0340.00, "RECORDING THE DIFFERENCES BETWEEN ACCRUAL AND PAYMENT AMOUNTS.")

## 5-0620.22 CONSUMPTION METHOD—PERPETUAL INVENTORY

Using a perpetual inventory system, the inventory is recorded as an asset when purchased and as an expenditure when requisitioned from the central storage area. Inventory records are maintained and updated regularly during the year. This system has the advantage of providing information on a timely basis. However, it requires the maintenance of extensive perpetual inventory records. GAAP require that a physical inventory count be made periodically to check the accuracy of the perpetual inventory valuation.

**To record the purchase of inventory:** For example, assume \$200,000 of supplies are purchased during the year.

General Fund (01)

Debit: 220	Inventories for Consumption	\$200,000
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Credit: 620 or 101	Warrants Payable or Cash	\$200,000
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Expenditures Subsidiary Ledger

X01-XXX-XXXX-610	Supplies	\$200,000
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(To record the purchase of inventory.)

**When supplies are consumed (requisitioned from central storage area) during the year:**

General Fund (01)

Debit: 802	Expenditures	\$191,500
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Credit: 220	Inventories for Consumption	\$191,500
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Expenditures Subsidiary Ledger

X01-XXX-XXXX-610	Supplies	\$191,500
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(To record the expenditure for supplies consumed, or issued to the area in which they will be used.)

## 5-0620.22 CONSUMPTION METHOD—PERPETUAL INVENTORY (Cont'd)

**To record supplies received but not yet paid for by June 30:** For example, assume supplies were received and the invoice for \$1,500 has not been paid by June 30.

General Fund (01)

Debit: 220	Inventories for Consumption	\$1,500
Credit: 621	Accounts Payable	\$1,500

(To record the cost of supplies received but not paid as of fiscal yearend.)

**At fiscal year-end, make a physical count of unused supplies in the central storage area.** Use the count to verify the ending inventory value shown on the accounting records. For example:

Beginning of the year inventory	\$100,000
Plus Purchases	201,500
Total Available	\$301,500
Amount used this year	(\$191,500)
Ending Inventory	\$110,000

During the year, requisitioned supplies costing \$191,500 were recorded as expenditures when issued. The expenditures balance does not need adjustment because it accurately reflects the amount of supplies used during the year. The balance of the inventory account equals the beginning inventory of \$100,000 plus the purchases of \$200,000 recorded as inventory, plus the addition of \$1,500 for the expenditure accrual. The inventory balance in the account therefore matches the ending inventory of \$110,000.

**At fiscal year-end to adjust the fund balance reserve for inventories:** Because inventories are an asset (even though they do not represent expendable resources) it is necessary to reserve fund balance by an amount equal to the carrying value of the inventories at fiscal year-end if the inventory amount is significant. For example, assume the reserve account has a balance of \$100,000 carried over from the prior year before adjustment.

General Fund (01)

Debit: 970 or 940	Unreserved Fund Balance or Unreserved Retained Earnings	\$10,000
Credit: 951	Reserve for Inventory	\$10,000

(To record a fund balance reserve in the amount of ending inventory. Debit account 970 for governmental funds and 940 for proprietary funds. The adjustment amount is \$10,000 (\$110,000 ending inventory value less \$100,000 beginning reserve account balance.)

**To record the payment in July or August for the expenditure accrual:**

Debit: 621	Accounts Payable	\$1,500
Credit: 620 or 101	Warrants Payable or Cash	\$1,500

(To record the payment of an accrual. This entry reduces the liability. See section 5-0340.00, "RECORDING THE DIFFERENCES BETWEEN ACCRUAL AND PAYMENT AMOUNTS.")

## **5-0700.00      PREPAID EXPENSES**

### **5-0710.00      INTRODUCTION**

#### **5-0710.10      DEFINITIONS**

**"Prepaid expenses"** are payments made during a fiscal year which apply to benefits to be received in a subsequent fiscal year. Prepaid expenses are assets which are gradually consumed or used over time. The items recorded as prepaid expenses are usually regularly recurring costs of operations. For example, prepaid rent and unexpired insurance premiums, including workers' compensation insurance premiums and comprehensive liability and fire insurance premiums, are items to be classified as prepaid expenses.

#### **5-0710.20      BASIC ACCOUNTING PROCEDURES**

Prepayments are recorded as assets when paid and are expensed over time by recording an expenditure each fiscal year for the amount of the related benefits received that year. The expenditure is normally recorded once a year at year-end closing for convenience. This method is called the "consumption method" of recording prepaid items. Alternatively, the district may record prepayments as expenditures when paid, then make adjustments at fiscal year-end to reflect the correct expenditure and prepaid expense (asset) balances. The two methods will provide the same account balances for reporting purposes and are shown below.

**Items that constitute prepayments, but will not be recorded as such** include maintenance agreements on equipment (if the annual cost is not material), subscriptions for periodicals, dues for organizations such as MASBO and School Administrators of Montana, travel advances, and small purchases usually under \$25 which a vendor requires to be paid in advance. The district will record those payments as expenditures when the warrants are written.

The purchase of textbooks and supplies should never be recorded as a prepaid expense. Record the expenditure as discussed in 5-0600 Supplies. Textbooks may be, but are not required to be, recorded as fixed assets. See 5-1200 Fixed Assets.

#### **5-0720.00      RECORDING PREPAID EXPENSES**

##### **Method 1: Prepayment recorded as an asset when paid.**

For example, assume the district purchases an insurance policy which covers 2 years beginning December 1 for \$24,000. The amount of expenditure to record for each month is \$24,000 divided by 24 months = \$1000.

##### **To record the payment for a prepaid expense:**

Debit: 240	Prepaid Expenses	\$24,000
Credit: 620 or 101	Warrants Payable or Cash	\$24,000

(To record the asset and the payment for a contract lasting beyond the current fiscal year.)

## 5-0720.00 RECORDING PREPAID EXPENSES (Cont'd)

**At fiscal year-end, to record an expenditure for the amount of prepaid expense which expired this year:** For the first year, December through June 30, the expenditure is 7 months X \$1000 = \$7000.

Year 1

Debit: 802	Expenditures	\$ 7,000
Credit: 240	Prepaid Expenses	\$ 7,000

Expenditure Subsidiary Ledger

XXX-XXX-XXXX-XXX	Any appropriate object for insurance	\$ 7,000
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(To record at fiscal year end, or periodically during the year, if needed, the portion of the prepaid asset which was used in the current period. That portion is recognized as an expenditure of the current period. The unused asset portion remains on the books as a prepaid expense until consumed in a subsequent period.)

**At the end of year 2, when the second year of the prepaid expense has expired:** The entry for year 2 of the contract would record 12 months X \$1000 = \$12,000 as expenditures and reduction of the asset.

Year 2

Debit: 802	Expenditures	\$12,000
Credit: 240	Prepaid Expense	\$12,000

Expenditure Subsidiary Ledger

XXX-XXX-XXXX-XXX	Any appropriate object for insurance	\$12,000
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(To record the portion of the prepaid asset "used" during the period by reducing the asset balance and recording the expenditure.)

**At the end of year 3, when the last portion of the prepaid expense has expired:** The entry for year 3 of the contract would record 5 months X \$1000 = \$5000 as expenditures and reduction of the asset.

The asset would be reduced to zero.

Year 3

Debit: 802	Expenditures	\$5,000
Credit: 240	Prepaid Expense	\$5,000

Expenditures Subsidiary Ledger

XXX-XXX-XXXX-XXX	Any appropriate object for insurance	\$5,000
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(To record the portion of the prepaid asset "used" during the period.)

**Method 2: Prepayment recorded as an expenditure when paid, then adjusted at year-end.**

**To record the payment for a prepaid expense during Year 1:**

Debit: 802	Expenditures	\$24,000
Credit: 620 or 101	Warrants Payable or Cash	\$24,000

Expenditure Subsidiary Ledger

XXX-XXX-XXXX-XXX	Any appropriate object for insurance	\$24,000
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(To record the asset and the payment for a contract lasting beyond the current fiscal year.)



## 5-0720.00 RECORDING PREPAID EXPENSES (Cont'd)

**At fiscal year-end of Year 1, to adjust expenditures to equal the amount of prepaid expense applicable to the current year:** For the first year, December through June 30, the expenditure is 7 months X \$1000 = \$7000. Reduce current expenditures to equal that amount.

Year 1

Debit: 240	Prepaid Expenses	\$17,000
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Credit: 802	Expenditures	\$17,000
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Expenditure Subsidiary Ledger

XXX-XXX-XXXX-XXX	Any appropriate object for insurance	\$17,000
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(To record the prepaid asset of \$17,000 (\$24,000 less \$7,000) and to reduce the expenditures to reflect the amount of prepayment applicable to the current year.)

**ALTERNATIVELY, THE PRECEDING TWO ENTRIES COULD BE COMBINED:** When the warrant is issued to pay the premium, the portion of the payment applicable to the current year may be recorded as an expenditure. The portion applicable to subsequent years should be recorded as an asset using 240 Prepaid Expenses.

Year 1

Debit: 802	Expenditures	\$ 7,000
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Debit: 250	Prepaid Expenses	\$17,000
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Credit: 620 or 101	Warrants Payable or Cash	\$24,000
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Expenditures Subsidiary Ledger

XXX-XXX-XXXX-XXX	Any appropriate expenditure object	\$ 7,000
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(To record the payment for insurance premiums covering a three year period. Whether the preceding two entries or this combined entry are used, the following entries will be recorded.)

**At the end of year 2, when the second year of the prepaid expense has expired:** The entry for year 2 of the contract would record 12 months X \$1000 = \$12,000 as expenditures and reduction of the asset.

Year 2

Debit: 802	Expenditures	\$12,000
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Credit: 240	Prepaid Expense	\$12,000
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Expenditure Subsidiary Ledger

XXX-XXX-XXXX-XXX	Any appropriate object for insurance	\$12,000
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(To record the portion of the prepaid asset "used" during the period by reducing the asset balance and recording the expenditure.)

**At the end of year 3, when the last portion of the prepaid expense has expired:** The entry for year 3 of the contract would record 5 months X \$1000 = \$5000 as expenditures and reduction of the asset.

The asset would be reduced to zero.

Year 3

Debit: 802	Expenditures	\$5,000
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Credit: 240	Prepaid Expense	\$5,000
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Expenditures Subsidiary Ledger

XXX-XXX-XXXX-XXX	Any appropriate object for insurance	\$5,000
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(To record the portion of the prepaid asset "used" during the period.)

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## **5-0800.00      VOIDED, CANCELED, AND REPLACEMENT WARRANTS**

### **5-0810.00      DEFINITIONS**

A **"voided warrant"** occurs when a district determines a warrant which has not been released to a payee is not valid. The warrant must be in the possession of the district to be voided. A warrant may be voided without board authorization. Generally, a warrant is voided if an error was made in writing it.

A **"canceled warrant"** occurs when a district determines a warrant which was previously issued is not valid. The board must authorize cancellation of a warrant. A warrant may be canceled even if the warrant is not in possession of the district. Generally, a warrant is canceled if it was lost, is stale dated, or was issued in payment for goods which were returned to the vendor. A canceled warrant is often followed by a replacement warrant.

A board of trustees may cancel a warrant which has been issued for at least one year, however the district's liability for payment of a contractual obligation does not terminate until the time specified in law (20-9-223, MCA). The contractual obligation generally continues for 8 years if based on an instrument in writing. See 27-2-201, MCA.

A **"replacement warrant"** is usually issued to replace an original warrant lost by the payee. The first warrant is usually canceled by the board and a replacement warrant issued.

### **5-0820.00      HOW TO VOID A WARRANT**

#### **To void a warrant:**

1. Mark the warrant "Void;"
2. If it was already recorded in the payroll or claims fund, adjust the clearing fund as necessary to reduce the cash and warrant payable accounts;
3. Increase the cash in the fund which recorded the payment originally. Reduce the expenditure account originally charged;
4. Since the warrant was not yet released to a payee, the county treasurer will not need to make a journal voucher entry to adjust the county records. If your county requires voided warrants to be submitted to the county treasurer's office to be filed with the paid warrants, send the warrant to that office.
5. Be sure to show the warrant as "Void" in the List of Warrants included in the Minutes. A voided warrant should not appear on the list of unpaid outstanding warrants.

## **5-0830.00      HOW TO CANCEL A WARRANT**

### **To cancel a warrant:**

1. IF A PAYROLL OR CLAIMS FUND WAS USED: Adjust the clearing fund to reduce the cash and warrant payable account. If the warrant will not be replaced with a warrant from the same fund, return the cash to the fund which recorded the payment originally. Notify the treasurer the cash will be restored to the paying fund. See #3 below.
2. If the warrant was issued in the current year, reduce the expenditure account originally charged. If written in a previous fiscal year, record as revenue 1900 Miscellaneous Revenue if immaterial, or 6100 Prior Period Revenue Adjustment, if material.
3. Notify the county treasurer in writing that the warrant was canceled. Include the warrant number, amount, fund, date of warrant, and reason for cancellation.
4. Be sure to delete the canceled warrant from the list of unpaid outstanding warrants.
5. If a replacement warrant is needed, see 5-0830.20.

## **5-0830.10      RECORDING A CANCELED WARRANT (WITHOUT A REPLACEMENT WARRANT)**

### **To record the cancellation of a warrant issued in the CURRENT year without issuing a replacement warrant:**

#### **A. IF A PAYROLL OR CLAIMS FUND WAS USED:**

Payroll Clearing Fund (86) or Claims Clearing Fund (87)

Debit: 620                      Warrants Payable

Credit: 101                      Cash

(To remove the amount of the canceled warrant from the total of warrants payable and remove the corresponding cash from the clearing fund. Cash is reduced, because it is moved back to the fund which recorded the expenditure.)

Fund which recorded the expenditure

Debit: 101                      Cash

Credit: 802                      Expenditures

Expenditure Subsidiary Ledger

XXX-XXX-XXXX-XXX              Expenditure line item originally charged

(To increase cash and reduce current year expenditures for the canceled warrant.)

## **5-0830.10      RECORDING A CANCELED WARRANT (W/O REPLACEMENT WARRANT) (Cont'd)**

### **B.      IF A PAYROLL OR CLAIMS FUND WAS NOT USED:**

Fund which recorded the expenditure

Debit: 620                      Warrants Payable

Credit: 802                      Expenditures

Expenditure Subsidiary Ledger

XXX-XXX-XXXX-XXX              Expenditure line item originally charged

(To increase cash and reduce current year expenditures for the canceled warrant.)

### **To record the cancellation of a warrant issued in a PRIOR FISCAL YEAR without issuing a replacement warrant:**

#### **A.      IF A PAYROLL OR CLAIMS FUND WAS USED:**

Payroll Clearing Fund (86) or Claims Clearing Fund (87)

Debit: 620                      Warrants Payable

Credit: 101                      Cash

(To remove the amount of the canceled warrant from the total of warrants payable and remove the corresponding cash from the clearing fund. Cash is reduced, because it is moved back to the fund which recorded the expenditure.)

Fund which recorded the expenditure

Debit: 101                      Cash

Credit: 402                      Revenues

Revenue Subsidiary Ledger

1900      Miscellaneous Revenue

(To increase cash and record miscellaneous revenue for the canceled warrant. IF THE AMOUNT OF THE CANCELED WARRANT IS MATERIAL, record the revenue using 6100 Prior Period Revenue Adjustments.)

#### **B.      IF A PAYROLL OR CLAIMS FUND WAS NOT USED:**

Fund which recorded the expenditure

Debit: 620                      Warrants Payable

Credit: 402                      Revenues

Revenue Subsidiary Ledger

1900      Miscellaneous Revenue

(To increase cash and record miscellaneous revenue for the canceled warrant. IF THE AMOUNT OF THE CANCELED WARRANT IS MATERIAL, record the revenue using 6100 Prior Period Revenue Adjustments.)

## 5-0830.20 RECORDING A CANCELED WARRANT (WITH A REPLACEMENT WARRANT)

Administrative Rule 10.10.307 provides the following:

- (1) When a replacement warrant is issued to replace a lost warrant as provided in section 7-7-2104, MCA, or a canceled warrant as provided in section 20-9-223, MCA, the following rules shall apply:
  - (a) The original warrant shall be removed from the unpaid outstanding warrant list.
  - (b) The word "duplicate" and phrase "replacement warrant for warrant no. \_\_\_\_\_" shall be plainly printed across the face of the warrant.
  - (c) The school district shall send the county treasurer a letter, including the original indemnity bond (see page 5-0800-7) if required, stating which warrant number has been lost or canceled and which warrant number has been issued to replace the lost or canceled warrant.
  - (d) The amount of the replacement warrant shall be shown on the list of warrants issued for the month but shall not be included in the total of the warrants issued or in the amounts transferred to the clearing accounts.

Most schools need only to reissue a replacement warrant with a typewriter and send a letter to the county treasurer identifying the replacement warrant and the previously issued warrant being replaced. It is very important to remove the original warrant from the list of unpaid outstanding warrants. **However, depending on the school's computer software program the following entries may have to be made:**

### **To record the cancellation of a warrant issued in the CURRENT year and issue replacement warrant:**

#### A. IF A PAYROLL OR CLAIMS FUND WAS USED:

The process explained here reverses the original entries and allows a replacement warrant to be issued through the normal warrant process.

Payroll Clearing Fund (86) or Claims Clearing Fund (87)

Debit: 620                      Warrants Payable

Credit: 101                      Cash

(To remove the amount of the canceled warrant from the total of warrants payable and remove the corresponding cash from the clearing fund. Cash is reduced, because it is moved back to the fund which recorded the expenditure.)

Fund which recorded the expenditure

Debit: 101                      Cash

Credit: 802                      Expenditures

Expenditure Subsidiary Ledger

XXX-XXX-XXXX-XXX              Expenditure line item originally charged

(To move cash back to this fund from the clearing fund and reduce current year expenditures for the canceled warrant.)

## **5-0830.20      RECORDING A CANCELED WARRANT (WITH REPLACEMENT WARRANT) (Cont'd)**

Fund which recorded the expenditure

Debit: 802                      Expenditures

Credit: 101                     Cash

Expenditure Subsidiary Ledger

XXX-XXX-XXXX-XXX          Expenditure line item originally charged

(To record the warrant written to replace the canceled warrant.)

Payroll Clearing Fund (86) or Claims Clearing Fund (87)

Debit: 101                     Cash

Credit: 620                    Warrants Payable

(To transfer cash to the clearing fund and record the warrant payable. If the replacement warrant was issued in the same month the original warrant was canceled for the same amount, there is no need to notify the county treasurer of the transactions in the clearing fund.)

### **B.      IF A PAYROLL OR CLAIMS FUND WAS NOT USED:**

Fund which recorded the expenditure

Debit: 620                    Warrants Payable

Credit: 802                    Expenditures

Expenditure Subsidiary Ledger

XXX-XXX-XXXX-XXX          Expenditure line item originally charged

(To increase cash and reduce current year expenditures for the canceled warrant.)

Fund which recorded the expenditure

Debit: 802                    Expenditures

Credit: 620                    Warrants Payable

Expenditure Subsidiary Ledger

XXX-XXX-XXXX-XXX          Expenditure line item originally charged

(To record the warrant written to replace the canceled warrant.)

### **To record the cancellation of a warrant issued in a PRIOR FISCAL YEAR and issue a replacement warrant:**

This process assumes the clerk can write a warrant against 402 Revenue (1900 Miscellaneous Revenue or 6100 Prior Period Revenue Adjustments). If unsure, contact your computer vendor to determine how to write warrant to replace a canceled warrant issued in a prior period.

### **A.      IF A PAYROLL OR CLAIMS FUND WAS USED:**

Payroll Clearing Fund (86) or Claims Clearing Fund (87)

Debit: 620                    Warrants Payable

Credit: 101                    Cash

(To remove the amount of the canceled warrant from the total of warrants payable and remove the corresponding cash from the clearing fund. Cash is reduced, because it is moved back to the fund which recorded the expenditure.)

## **5-0830.20      RECORDING A CANCELED WARRANT (WITH REPLACEMENT WARRANT) (Cont'd)**

Fund which recorded the expenditure

Debit: 101                      Cash  
Credit: 402                      Revenues

Revenue Subsidiary Ledger

1900                              Miscellaneous Revenue

(To increase cash and record miscellaneous revenue for the canceled warrant. IF THE AMOUNT OF THE CANCELED WARRANT IS MATERIAL, record the revenue using 6100 Prior Period Revenue Adjustments.)

Fund which recorded the expenditure

Debit: 402                      Revenues  
Credit: 101                      Cash

Revenue Subsidiary Ledger

1900                              Miscellaneous Revenue

(To record the warrant written to replace the canceled warrant. This entry assumes a warrant can be written against a revenue account. IF THE AMOUNT OF THE CANCELED WARRANT IS MATERIAL and the previous entry used 6100 revenue, write the replacement warrant against 6100 Prior Period Revenue Adjustments.)

### **B.      IF A PAYROLL OR CLAIMS FUND WAS NOT USED:**

Fund which recorded the expenditure

Debit: 620                      Warrants Payable  
Credit: 402                      Revenues

Revenue Subsidiary Ledger

1900                              Miscellaneous Revenue

(To increase cash and record miscellaneous revenue for the canceled warrant. IF THE AMOUNT OF THE CANCELED WARRANT IS MATERIAL, record the revenue using 6100 Prior Period Revenue Adjustments.)

Fund which recorded the expenditure

Debit: 402                      Revenues  
Credit: 101                      Cash

Revenue Subsidiary Ledger

1900                              Miscellaneous Revenue

(To record the warrant written to replace the canceled warrant. This entry assumes a warrant can be written against a revenue account. IF THE AMOUNT OF THE CANCELED WARRANT IS MATERIAL and the previous entry used 6100 revenue, write the replacement warrant against 6100 Prior Period Revenue Adjustments.)



## 5-0830.30 INDEMNITY BOND FOR LOST OR DESTROYED WARRANT

KNOW ALL MEN BY THESE PRESENTS, that we, \_\_\_\_\_  
of \_\_\_\_\_, as Principal, and \_\_\_\_\_  
and \_\_\_\_\_ of \_\_\_\_\_, as  
Sureties, are held and firmly bound unto \_\_\_\_\_ County, Montana, in a sum of  
\_\_\_\_\_ Dollars (\$ \_\_\_\_\_) to be paid to the Treasurer  
of \_\_\_\_\_ County, Montana, for which payment, well and truly to be made, we bind ourselves  
and our heirs, executors and administrators, jointly and severally, firmly by these presents.

The condition of this obligation is such that whereas a certain Warrant No. \_\_\_\_\_ of \_\_\_\_\_ County,  
Montana, Dated \_\_\_\_\_, 19\_\_\_\_, in the sum of \_\_\_\_\_ (\$ \_\_\_\_\_)  
payable to \_\_\_\_\_ is alleged to have been lost or destroyed.

That sufficient proof having been made that the said Warrant has been lost or destroyed, a duplicate of such warrant  
has been issued to the owner or holder thereof, which said duplicate is to take the place, in order of registration and  
payment, of such original warrant.

NOW, if the said obligors shall well and truly save harmless and indemnify the County from all loss, costs, or damages,  
by reason of the issuing of the duplicate, and if the said obligors will pay to any person entitled to receive the same, as  
the lawful holder of the original warrant, all moneys received upon such duplicate, then this obligation to be void, -  
otherwise to remain in full force and effect.

Dated this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

\_\_\_\_\_  
Principal

\*Note: Signature of each Surety  
required in two places

\_\_\_\_\_  
Surety

\_\_\_\_\_  
Surety

STATE OF MONTANA )  
 ) ss,  
COUNTY OF )

\_\_\_\_\_ and \_\_\_\_\_ the  
sureties name in the foregoing Indemnity Bond, being first duly sworn, each for himself and not for the other, deposes  
and says:

That he is responsible and a householder or freeholder, within the State of Montana, and is worth the amount fixed as  
the penalty of the said bond, over and above all his just debts and liabilities, exclusive of property exempt from execution.

\_\_\_\_\_  
Surety

\_\_\_\_\_  
Surety

SUBSCRIBED AND SWORN TO before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

Notary Public for the State of Montana  
Residing at \_\_\_\_\_, Montana  
My commission expires \_\_\_\_\_.

(Note: This bond should be double the amount of the warrant alleged to have been lost or destroyed)

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## **5-0900.00 INVESTMENTS**

### **5-0910.00 INTRODUCTION**

#### **5-0910.10 DEFINITIONS**

**"Short Term Investment Pool (STIP)"** is a pooled investment fund operated by the Montana Board of Investments. Districts may contact the Board of Investments for more information at (406) 442-1970.

**"Repurchase agreement"** is a contract that specifies the minimum and maximum amount of public money that the board of trustees will invest in securities that the financial institution will sell to the board and mutually agree to repurchase them at a later date. A repurchase agreement is not a demand account. (7-6-213(2) and (3), MCA)

#### **5-0910.20 BASIC REQUIREMENTS**

Trustees have a fiduciary responsibility to invest the school district's money in investments with terms most advantageous to the district. (20-9-213, MCA)

##### Authorized Investments

The Board of Trustees may direct the county treasurer to invest public money which is not needed for immediate use:

- a. In savings or time deposits in a state or national bank, building or loan association, savings and loan association, or credit union insured by the FDIC, FSLIC, or NCUA located in the state (20-9-213, MCA);
- b. In a repurchase agreement as authorized in 7-6-213, MCA;
- c. Under the state unified investment program (STIP) established in 17-6-204, MCA; or
- d. Eligible securities as authorized in 7-6-202, MCA.

The investment program of a district should:

- a. Be aggressive in order to provide the maximum interest income to the district;
- b. Be approved and directed by the board of trustees;
- c. Be made on a timely basis subject to withdrawal in amounts necessary and without penalty;
- d. Obtain the highest yield possible within the limits of the law;
- e. Ensure safety of investments; and
- f. Include a register including all investing activities.

Investments held by any fund should never exceed the total cash balance of the fund. If this situation appears imminent, a portion or all of the investments should be redeemed.

##### County Treasurer's Responsibilities

The county treasurer should:

- a. Invest the funds within 3 (three) working days (20-9-212, MCA);
- b. Obtain sufficient security from financial institutions to ensure safety and prompt payment of the investments and interest earned on investments; and
- c. Credit principal and interest to the fund that made the investment.

## **5-0910.20 BASIC REQUIREMENTS (Cont'd)**

### **Investment Register**

The district's investment register should include:

- a. Date of purchase;
- b. Number of the county treasurer's warrant issued in payment;
- c. Fund(s) making investment;
- d. Description of investment;
- e. Identification number of investment;
- f. Maturity date;
- g. Face value;
- h. Premium paid or discount on purchase;
- i. Net cost (Book value);
- j. Interest received on investment;
- k. County treasurer's receipt number covering deposit of interest; and
- l. Date of sale or redemption of investment.

For STIP investments, the district's investment register should include:

1. Date of transaction;
2. Nature of transaction (purchase, sale, income distribution, etc.);
3. Number of units involved;
4. Unit fair value;
5. Total fair value;
6. Unit accrued interest purchased;
7. Total accrued interest purchased;
8. Unit selling price;
9. Total investment balance (total fair value plus total accrued interest purchased);
10. Gain or loss;
11. Interest earned; and
12. Receipt number.

### **Interest**

All interest collected on the deposits or investments must be credited to the fund from which the money was withdrawn, except that interest earned on account of the investment of money realized for the sale of bonds must be credited to the debt service fund or the building fund, at the discretion of the board of trustees (20-9-213(4), MCA).

The placement of the investment by the county treasurer is not subject to ratable distribution laws and must be done in accordance with the directive from the board of trustees (20-9-213(4), MCA).

### **Investment of Federal Moneys**

Federal regulations require entities which receive federal financial assistance to follow procedures to minimize the time elapsed between the transfer of funds to them and the disbursement of the funds. Generally, the time elapsed between the transfer of Federal money to the district and the disbursement should be from three (3) to five (5) days. Districts are not allowed to keep excessive federal cash.

Interest earned on Federal money in excess of \$250 must be refunded to the grantor. See Section 9 of this manual.

## 5-0920.00 RECORDING INVESTMENT ACTIVITY

### Investment of State and Local Moneys

Interest earned on state and local money must be deposited in the fund which earned the interest and should be spent for the same purposes as the money which earned the interest.

## 5-0920.10 STATE SHORT-TERM INVESTMENT POOL (STIP)

Investments may be made through the State Short-Term Investment Pool (STIP) (20-9-213 and 17-6-204, MCA).

When STIP investments are purchased at any time other than the last business day of the month, the purchaser must pay an additional amount equal to the interest that has accumulated or accrued on the units since the last income distribution. The fair value and the accrued interest purchased must be accounted for separately in order to make a proper accounting for the money invested. The accrued interest purchased is written off when the investment is redeemed or upon the first distribution date, whichever comes first.

**Example:** On July 12, 1990, 100 STIP units were purchased with the Transportation Fund:

	Per Unit	Total
Fair Value (Principal)	\$100.00 X 100 Units	\$10,000.00
Accrued Interest Purchased	3.27 X 100 Units	32.70
Total	103.27 X 100 Units	\$10,032.70

### To record the purchase of STIP units:

Transportation Fund (10)

Debit: 111	Investments	\$10,000.00
Debit: 115	Accrued Interest Purchased	\$32.70
Credit: 620 or 101	Warrants Payable or Cash	\$10,032.70

(To record the purchase of STIP units.)

On the date of the next income distribution, the last business day of each month, July 31, 1990, the accrued interest purchased would be returned together with interest earned from the date of purchase.

**To record the receipt of interest income on STIP investments:** For example, assume the interest received was \$68.90.

Transportation Fund (10)

Debit: 101	Cash	\$68.90
Credit: 115	Accrued Interest Purchased	\$32.70
Credit: 402	Revenue	\$36.20

Revenue Subsidiary Ledger

1510	Interest Income	\$36.20
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(To record the receipt of income on investments. This entry reduces the accrued interest purchased account to zero.)

## 5-0920.10 STATE SHORT-TERM INVESTMENT POOL (STIP) (Cont'd)

**At fiscal year-end, to record the interest earned but not received by June 30:** For example, assume the interest distribution on the last business day of the month of June was June 28. The district's interest income on the STIP units of the Transportation Fund for the last two days of June was \$165. (NOTE: If the accrued interest for a fund is less than \$100, do not accrue the amount as shown in this entry. This entry will be rare since several days of interest income on a fund's investment will be immaterial for most districts.)

Transportation Fund (10)

Debit: 114	Interest Receivable	\$165
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Credit: 402	Revenue	\$165
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Revenue Subsidiary Ledger

X10-1510	Interest Income	\$165
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(To record interest earned but not received in cash by June 30.)

**In the next year, to record the receipt of the July interest payment:** For example, assume the July interest distribution to the Transportation Fund, which includes \$165 earned on June 29 and 30, totals \$2500.

Transportation Fund (10)

Debit: 101	Cash	\$2500
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Credit: 114	Interest Receivable	\$165
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Credit: 402	Revenue	\$2335
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Revenue Subsidiary Ledger

X10-1510	Interest Income	\$2335
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(To record receipt of interest on STIP investments. This entry reduces the receivable to zero and records the revenue earned in the current fiscal year.)

## 5-0920.20 REPURCHASE AGREEMENTS

Districts may direct the county treasurer to invest the public money of the district in repurchase agreements. When the county invests in repurchase agreements, the county maintains, in the same financial institution contracting for the repurchase agreement, a demand account into which daily deposits are made in amounts equal to the day's disbursements. The deposit is the proceeds of the redemption by the financial institution of securities previously purchased by the county under the provisions of the contract. The balance in the demand account is zero at the end of each business day (7-6-213(4), MCA).

The district will not record the investments purchased by the county repurchase agreement. The district will record the interest distributed to each fund used to purchase the investment.

**To record interest earned on repurchase agreements:**

Debit: 101	Cash	\$100
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Credit: 402	Revenue	\$100
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Revenue Subsidiary Ledger

XXX-1510	Interest Income	\$100
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## **5-0920.30 COUNTY INVESTMENT PROGRAM**

A school district may participate in a unified county investment program. The district must notify the county treasurer in writing that the board of trustees, by resolution, directs the treasurer to include the district in the program. Interest distribution is based on the percentage of school district monies within the total amount invested. The county may charge a fee to cover the cost of maintaining the investment program. Record the receipt of interest income as shown above for repurchase agreements. Charge any administration fee paid to the county treasurer's office to function 2513 Receiving and Disbursing Fund Services and expenditure object 860 Agent Fees.

## **5-0920.40 GAINS/LOSSES ON INVESTMENTS**

Schools and cooperatives currently report their investments at cost. Effective June 30, 1998, GASB 31 requires certain investments to be reported at fair value rather than at cost.

- Investments which may still be reported **at cost** include: savings accounts, non-negotiable certificate of deposits, and shares with the Short Term Investment Pool (STIP).
- Investments which must be reported **at fair value** include: Fannie MAE's, Freddie MAC's, open end money market mutual funds, and repurchase agreements collateralized with long term investments subject to the fair value provisions of GASB 31. Most schools are not involved in these types of investments.

[See Appendix E from the Department of Commerce for a comprehensive list of investments which should be reported at cost or fair value.]

The county treasurer, broker, or bank holding your investments will provide you a report of the fair value of your investments as of June 30. The difference between the fair value of investments at the beginning of the year and at the end of the year is an "unrealized" (i.e., paper) gain or loss. If the investment is subject to its provisions, GASB 31 requires you to report the net unrealized gain or loss and report the investment at its current fair value.

Report the sum of [cash plus investments at fair value] on Line 1 "Cash & Investments Less Warrants Payable 620" of the Trustees' Financial Summary balance sheet. Use revenue source 1530 to report net "unrealized" gains or losses due to changes in fair value.

- Revenue account 1530 Net Increase (Decrease) in the Fair Value of Investments was previously called "Gain/Loss on Sale of Investments."
- School districts and cooperatives should avoid using revenue source 1510 Investment Earnings to report unrealized gains or losses because of possible adverse budget impacts. Revenue source 1510 Investment Earnings should be used for *realized* revenue from investments. That is, use it to report net profit or loss when the investment is sold.

Reporting gains and losses under GASB 31 requires a comparison of current fair value to the fair value LAST year end. In the year of implementation, restate investments at the beginning of the year to fair value on that date. For example, investments reported at cost on 6/30/00 must be restated to fair value at that date so you can compare that value to fair value at 6/30/01. The Department of Commerce recommends schools and cooperatives report gains and losses from the restatement of the beginning investment balance using revenue source 6100 Prior Period Revenue Adjustments. [See example on next page.]

Schools and cooperatives are encouraged to use asset account 111 Investments to report investments purchased at cost and a new asset account 112 Increases and Decreases in the Fair Value of Investments to

## 5-0920.40 GAINS/LOSSES ON INVESTMENTS (cont'd)

report net gains and losses in fair value. The sum of accounts 111 and 112 is the investments at fair value cost and a new asset account 112 Increases and Decreases in the Fair Value of Investments to report net gains and losses in fair value. The sum of accounts 111 and 112 is the investments at fair value. School districts and cooperatives may establish these accounts at year-end on their records.

### County Treasurers

County treasurers should issue June 30th reports as soon as possible after the close of the fiscal year and not later than July 10. If there are any delays in determining the fair value of investments or in determining each school district's or cooperative's share of an external investment pool, we suggest county treasurers issue reports showing investments at cost so school districts can complete the budget process as prescribed by law. County treasurers could then issue revised reports of investments at fair value at a later date in order for school districts and cooperatives to adjust financial statements for audit purposes.

### Material Gains or Losses

If you have any questions or if your school district experiences a material gain or loss (5% of total fund assets), please call OPI to discuss potential impacts on the general fund budget.

### IMPLEMENTING GASB 31

Example	Prior Year Cost	1st Year Reporting	2nd Year Reporting
Investments at Cost	\$100,000	\$100,000	\$100,000
Investments at Fair Value	\$102,000	\$106,000	\$107,000

#### 1st Year Reporting:

##### Accounting Entry

Debit 111	Investments	\$6,000
Credit 402 Revenue		\$6,000

##### Revenue Subsidiary Ledger

1530	Net Increase(Decrease) in Fair Value of Investments	\$4,000
6100	Prior Period Revenue Adjustment (only for 1st yr of GASB31)	\$2,000

#### 1st Year Reporting on Trustees' Financial Summary

##### Balance Sheet:

Investments *included* on "Line 1 Cash and Investments Less Warrants Payable 620" \$106,000(mkt)

##### On Schedule of Revenues, Expenditures and Changes in Fund Balance:

Prior Year Fair Value	\$ 102,000
1st Year Fair Value	\$ 106,000
Net Increase in Fair Value	\$ 4,000

1530	Net Increase(Decrease) in Fair Value of Investments	\$4,000
6100	Prior Period Revenue Adjustment (only for implementation of GASB31)	\$2,000



## 5-0920.40      GAINS\LOSSES ON INVESTMENTS (Cont'd)

### 2nd Year Reporting:

#### Reporting on Trustees' Financial Summary

2nd Year Balance Sheet:

Investments *included* on                      Line 1                      Cash, Investments Less Warrants Payable 620

On Schedule of Revenues, Expenditures and Changes in Fund Balance:

1st Year Fair Value	\$ 106,000
2nd Year Fair Value	\$ 107,000
Net Increase in Fair Value	\$ 1,000

#### Accounting Entry

Debit: 111	Investments	\$1,000
Credit: 402	Revenue	\$1,000

Revenue Subsidiary Ledger

1530	Net Increase(Decrease) in Fair Value of Investments	\$1,000
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#### Effect:

Increase in value of investments on balance sheet is \$7,000, which matches total unrealized gain shown on schedule of revenues, expenditures, and changes in fund balance.

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## **5-1000.00     SHORT-TERM LOANS**

### **5-1010.00     INTRODUCTION**

#### **5-1010.10     DEFINITIONS**

**"Short-term loans"** are obligations which are to be repaid within one year of the date issued and are not serviced by a specific tax levy. They may include loans from the Board of Investments and tax anticipation notes payable obtained by the district to provide operating cash pending receipt of revenues, or to finance a specific project or purchase.

**"Long-Term Loans"** are obligations which must be repaid later than one year after the loan is made. See "NOTES/LONG-TERM LOANS" in section 51340.00 of this manual.

"Interfund Loans" see section 5.0520.50 of this manual.

#### **5-1020.00     RECORDING SHORT-TERM LOANS**

Short-term loans create proceeds which the district may use to finance current operations and a current liability for the amount of the proceeds. When repaid, the liability is reversed on the district's accounting records. (Proceeds from short-term loans are **not** Other Financing Sources, and the repayment is **not** an Other Financing Use.)

Assume the district borrows \$20,000 on September 1 for building improvements to be repaid within one year. Interest on the loan is 10% and will be paid when the loan is paid. Interest on short-term loans is recorded as an interest expenditure in the accounting period in which the liability is incurred. This means that interest expense on a short-term loan borrowed during the current year which will be repaid in the next fiscal year must be recorded as a payable, if material, at fiscal year-end.

##### **To record receipt of a short-term loan:**

Fund Which Receives Proceeds

Debit: 101	Cash	\$20,000
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Credit: 650	Loans Payable (Current)	\$20,000
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(To record receipt of a short-term loan. Do not record as revenue.)

The payable remains a liability of the fund until the loan is repaid.

**At fiscal year-end, to record the liability for interest expense on the loan:** Calculate the interest payable from the date of the loan through June 30. In this case, 10 out of 12 months of interest is payable by fiscal year-end. The interest payable amount is  $(\$20,000 \times .10) \times 10/12 = \$1,667$ .

Fund Which Received Proceeds

Debit: 802	Expenditures	\$ 1,667
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Credit: 656	Interest Payable-Current	\$ 1,667
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Expenditures Subsidiary Ledger

XXX-1XX-52XX-850	Interest Expense	\$ 1,667
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(To record interest payable at year-end on a short-term note payable.)

## **5-1020.00      RECORDING SHORT-TERM LOANS (Cont'd)**

**To record the payment of a short-term loan (whether paid in same fiscal year or next fiscal year):**

Fund Which Received the Proceeds

Debit: 650	Loans Payable	\$20,000
Debit: 656	Interest Payable-Current	\$ 1,667
Debit: 802	Expenditures	\$ 333
Credit: 620 or 101	Warrants Payable or Cash	\$22,000
Expenditure Subsidiary Ledger		
XXX-1XX-52XX-850	Interest Expense	\$ 333

(To record repayment of a short-term loan, with interest. The loan payable is reversed from the payable account at the principal amount. Interest is charged as a current expenditure.)

## **5-1100.00 PETTY CASH, CASH CHANGE, AND INTERIM DEPOSITORY ACCOUNTS**

### **5-1110.00 DEFINITIONS**

**"Petty Cash Account"** is a sum of money set aside for the purpose of: (1) Paying small obligations for which issuing formal district warrants would be too expensive or time consuming; or (2) Providing change for concessions, lunch sales, etc.

**"Cash Change Account"** is a specific type of petty cash fund. It is a sum of money set aside for the purpose of providing change for concessions, lunch sales, etc.

**"Interim Depository Accounts"** are bank accounts used to temporarily hold cash collections until the cash can be deposited with the county treasurer.

### **5-1120.00 AUTHORIZED BANK ACCOUNTS AND DEPOSITORIES**

As provided by sections 20-9-212 and 20-9-504, MCA, the county treasurer is the custodian and depository of all school district moneys except student extracurricular funds. Other bank accounts or depositories outside the county treasurer are limited to petty cash accounts, interim depository accounts for school lunch or driver's education fees, and gifts or endowments if such accounts are required by the donor. The county treasurer is required to be the custodian for all other school district moneys, including gifts, donations, endowments, interlocal agreements, direct federal or state revenues, and district administered self-insurance programs. (ARM 10.10.306)

Districts should maintain a complete list of accounts held for petty cash purposes and any bank accounts used for other district purposes. Auditors should be made aware of all such funds.

### **5-1130.00 BASIC ACCOUNTING PROCEDURES FOR PETTY CASH ACCOUNTS**

Petty cash accounts should be limited to the amount needed to provide change or cover purchases allowed from the account, as evidenced over time. If the district discovers the account balance exceeds normal usage, excess cash should be redeposited to the fund from which it came. The proper investment and safeguarding of cash is a basic responsibility of the management of the district.

A petty cash account used for purchases should not be commingled with a cash change account used to provide coin and currency needed to conduct cashiering or similar operations.

Any petty cash account FOR PURCHASES should be operated on the **"imprest cash" system**. An imprest cash account consists of moneys withdrawn from a fund held by the county treasurer to be used for relatively small purchases. The cash is kept either on hand or in a separate bank account. Examples of reasonable uses include purchases of less than \$25, freight charges, postage costs, and other purchases requiring immediate cash as a means of payment.

## **5-1130.00 BASIC ACCOUNTING PROCEDURES FOR PETTY CASH ACCOUNTS (Cont'd)**

In the imprest system for handling minor disbursements, a set amount is placed in a petty cash fund. As disbursements are made, receipts are obtained and petty cash vouchers are prepared. At any time, the total of cash on hand plus petty cash vouchers must equal the authorized amount for the petty cash fund. Periodically, the receipts and petty cash vouchers are attached to a claim for reimbursement. The reimbursement should return the amount of cash in the account to the authorized balance. The reimbursement warrant should be charged to the applicable funds and budget items based on the disbursement made, as evidenced by receipts and petty cash vouchers. An imprest cash account should be reimbursed at fiscal year-end to accurately reflect current year expenditures.

The following procedures are suggested for proper management and accounting control over petty cash accounts used for purchases:

1. Petty cash funds should be relatively small in amount.
2. Checks should require dual signatures.
3. Petty cash checks should not be made to "cash."
4. Checks from other sources should not be cashed using petty cash funds.
5. The only deposits made to the petty cash fund should be warrants to reimburse the fund. Other miscellaneous receipts should not be deposited to the petty cash fund.
6. An accounting record of all petty cash transactions should be maintained. Every reimbursement from the fund to the petty cash account should be by receipts signed by the payee, invoices, or petty cash vouchers for minor items attested to by the petty cash custodian for this purpose.

A cash change account should not be commingled with a petty cash account used for purchases. The responsibility for a change account should be assigned to an account custodian.

## **5-1140.00 RECORDING PETTY CASH ACCOUNT TRANSACTIONS**

**To record the establishment of the petty cash fund, or to increase an existing fund:** For example, assume the district establishes a petty cash fund for \$200 in the current year.

General Fund (01)

Debit: 103	Petty Cash	\$200
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Credit: 620 or 101	Warrants Payable or Cash	\$200
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(To record establishment of a petty cash fund or to increase an existing petty cash fund.)

## 5-1140.00 RECORDING PETTY CASH ACCOUNT TRANSACTIONS (Cont'd)

IF THE DISTRICT ESTABLISHED A CASH ACCOUNT IN A PRIOR YEAR: For example, assume the district established a petty cash account for purchases several years ago by issuing a warrant for \$100 from the General Fund. The establishment of a petty cash account should not be recorded as an expenditure, as shown above. Since prior year expenditures cannot be reduced after the budget has lapsed, record the correction to the prior year, and establish the petty cash account in the accounting records of the district, by recording the following entry.

General Fund (01)

Debit: 103	Petty Cash	\$100
Credit: 402	Revenue	\$100

Revenue Subsidiary Ledger

X01-6100	Prior Period Revenue Adjustments	\$100
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(To record the petty cash account, established in a prior year by charging expenditures. The balance of the 6100 account is reported as an adjustment to beginning fund balance on the Trustees' Financial Summary and GAAP financial statements.)

**To record the closure of a petty cash account, or to permanently decrease the account:** Close the cash balance into the fund from which the petty cash fund was established.

General Fund (01)

Debit: 101	Cash	\$200
Credit: 103	Petty Cash	\$200

(To record the return of cash from an abolished petty cash fund, or to reduce the amount held in a petty cash fund.)

**To record the reimbursement of the cash in the petty cash fund:** Record the expenditure in the fund to which the expenditure applies. For example, assume the \$200 petty cash fund has spent \$185 since it was last reimbursed. Of the \$195 spent, \$100 applies to General Fund expenditures and \$85 applies to the Transportation Fund.

General Fund (01)

Debit: 802	Expenditures	\$100
Credit: 620 or 101	Warrants Payable or Cash	\$100

Expenditures Subsidiary Ledger

X01-XXX-XXXX-XXX	Various appropriate budget line items	\$XXX
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Transportation Fund (10)

Debit: 802	Expenditures	\$ 85
Credit: 620 or 101	Warrants Payable or Cash	\$ 85

Expenditures Subsidiary Ledger

X10-XXX-XXXX-XXX	Various appropriate budget line items	\$XXX
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(To record the expenditures originally paid using petty cash. Charges to various line items will equal the debit to expenditures. A PETTY CASH ACCOUNT SHOULD BE REIMBURSED PERIODICALLY, AND MUST BE REIMBURSED AT FISCAL YEAR-END TO PROPERLY REFLECT CURRENT YEAR EXPENDITURES.)

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